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ANNUAL REPORT

of

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY

for the Year 1944

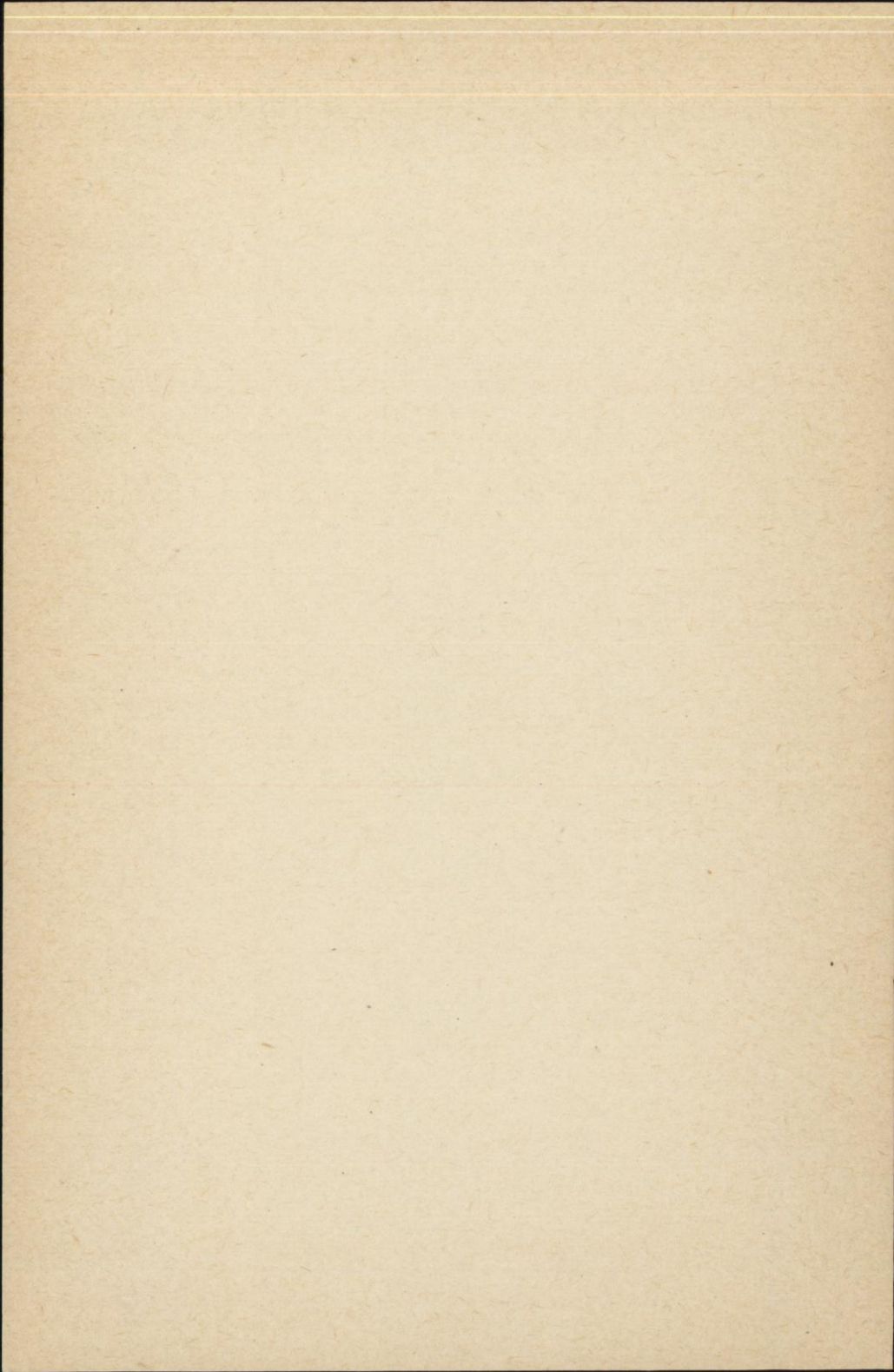


225 East Fourth Street
Cincinnati, Ohio

BOARDS

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The Cincinnati and Suburban Bell Telephone Company

225 East Fourth Street
Cincinnati 2, Ohio

DIRECTORS

*Archibald J. Allen

Don M. Arnette

John J. Becker

Richard R. Deupree

*Charles W. Dupuis

*Bayard L. Kilgour, Jr.

*Charles J. Livingood

*Stuart B. Sutphin

*Members of the Executive Committee

OFFICERS

A. J. ALLEN
President

B. L. KILGOUR, JR.
Vice President

O. A. FRANK
Vice President

D. M. ARNETTE
Secretary and Treasurer

H. W. HECKLE
General Auditor

L. C. NOWLAND
Chief Engineer

T. E. GREEN
General Commercial Manager

R. A. WEAVER
General Plant Manager

O. W. MILLS
General Traffic Manager

W. F. ARMSTRONG
Assistant Vice President

C. M. JACOBS
General Counsel

REPORT OF THE DIRECTORS
OF
THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
FOR THE YEAR 1944

Cincinnati, Ohio, March 5, 1945.

TO THE SHAREHOLDERS:

The year 1944 continued to produce great demands on the Telephone Company for both local and long distance service. The Company was able to supply service through its existing facilities for the present subscribers, but facilities were not available to take care of the large additional demands for telephone service. In addition to the shortage of telephone instruments, there is now a shortage of outside plant. In many places all the available open wire and wires in cables have been put into use. The equipment in nearly all of our telephone offices is now fully in use. It will therefore be necessary not only to get telephones but to get additional outside plant and to make additional central office installations in order to fully supply the demand for telephones. At the end of the year there were 11,921 applications for local service on the waiting list. For most of the year, the only telephones available for installation were those removed from the premises of subscribers giving up service. The reinstallation of these telephones continued to be subject to United States Government orders, under which they were used mostly for subscribers engaged in war work and related activities.

Telephones in Service

The shortage of facilities outlined above, restricted the growth in telephones to 2,520 compared with a growth of 13,198 in the year 1943. The number of telephones in service at the end of 1944 was 240,726.

Revenues, Expenses and Earnings

Telephone operating revenues for the year 1944 were \$14,614,494, an increase of 5.7 per cent over 1943. Telephone operating expenses, excluding taxes, were \$7,902,335, an increase of 9.5 per cent. Taxes amounted to \$4,242,300, an increase of 4.2 per cent. The net income available for dividends was \$2,362,405, and dividends amounting to \$2,055,069 were paid.

Postwar Planning

At all times much long term planning is essential to the successful carrying on of the established policy of furnishing the best possible service at the lowest cost consistent with financial safety. Representatives of a number of departments of the Telephone Company are making plans preparatory to postwar operations. It is evident that the future construction of telephone plant and the service to the public will be benefited by doing, at the present time, some of the preliminary engineering and planning that will be required when material and manufacturing facilities are again available. Our postwar plans include a study of the best possible methods of supplying any increased needs for telephone service in the farming territory served by this Company. It has been possible, even with the scarcity of facilities, to take care of the current demands for telephones on farms, as the government orders class the producers of farm products as closely related to war activities.

Depreciation Reserve

Within the limitations of materials available under war conditions, our plant has been continued in good repair. However, due to the shortage of materials and the heavy usage, the replacements in telephone plant will be more than in normal years as soon as additional facilities and man power are available. Inability to make normal replacements during the year resulted in a larger than usual increase in the depreciation reserve.

Benefit and Pension Plan

The Plan for Employees' Pensions, Disability Benefits and Death Benefits has continued in successful operation for thirty-one years. The Plan has continued to contribute to the efficient and economical operation of the business and gives a sense of security to the employees.

Payments to retired employees from the Pension Trust Fund amounted to \$115,023 during the year. There were 192 retired employees on the service pension rolls at the end of the year. The Trustee's Report of the Pension Trust Fund is shown on page 12.

Savings and Insurance Plans

The payroll allotment plan for the purchase of War Savings Bonds has been continued throughout the year. At the end of 1944 over 96 per cent of the employees were participating in the plan. Bonds are being purchased at the rate of \$465,000 per year. Payroll allotment plans for the payment of life insurance premiums, including premiums on insurance taken out by employees in the armed services; payments to a credit union operated for and by the employees, and dues for Hospital Care service have been continued throughout the year.

Extended Work Week and Hours of Work

In compliance with the request of the War Manpower Commission, an extended work week was placed in effect in June, 1944. At the request of the Office of Defense Transportation, the hours of starting and ending the working days were rearranged in order to fit in with a community plan of transportation.

Personnel

We have 172 employees, both male and female, in the military services. All regular employees who enter the military forces have been given leave of absence for the duration of the war. Our postwar plans indicate that we

will need all of these employees in the telephone business as soon as they can be discharged after the war is won. We have recently written all our employees in the armed forces, assuring them of a job with the Company at the end of the war.

The important part that the telephone service plays in carrying on the war activities and in maintaining the morale of all the people, is evident to our employees. The job that telephone employees have done in supplying good telephone service must be a real satisfaction to each employee. The Officers and Directors are pleased to have this opportunity to add their thanks to the many complimentary messages that have continued to come from our subscribers throughout the year.

For the Board of Directors,

A. J. ALLEN,
President.

CERTIFICATE OF AUDIT

The Cincinnati and Suburban Bell Telephone Company,
Cincinnati, Ohio.

We have examined the consolidated balance sheet of The Cincinnati and Suburban Bell Telephone Company and Citizens Telephone Company as at December 31, 1944, and the related consolidated statements of income and surplus for the year 1944, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

Reference is made to note (a) to the accompanying consolidated income statement regarding the inclusion as a miscellaneous deduction from income of a portion of the provision made during the year for employees' service pensions. We concur in the opinion of the companies, expressed in such note, that properly such item constitutes an operating expense.

With the explanation appearing in the immediately preceding paragraph, in our opinion, the financial statements, (pages 7 to 11) present fairly the consolidated position of The Cincinnati and Suburban Bell Telephone Company and Citizens Telephone Company at December 31, 1944, and the consolidated results of their operations for the year 1944, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LYBRAND, ROSS BROS. & MONTGOMERY

Cincinnati, Ohio.
January 29, 1945.

FINANCIAL STATEMENTS

The Consolidated Financial Statements which follow on pages 8 to 11, inclusive, consolidate the accounts of The Cincinnati and Suburban Bell Telephone Company and Citizens Telephone Company. The latter Company operates the Kentucky properties of The Cincinnati and Suburban Bell Telephone Company under a lease which provides that all net earnings of the lessee shall accrue to the lessor as rent.

The accounts of these Companies have been maintained in accordance with Uniform Systems of Accounts prescribed for Telephone Companies by Federal authorities since January 1, 1913 — originally by the Interstate Commerce Commission and since July, 1934, by the Federal Communications Commission. The presently prescribed accounting requires, with certain exceptions, that the accounts for telephone plant show the original cost of property at the time of its first dedication to the public use, whether by the accounting company or by a predecessor owner. The total shown for "Telephone Plant" in the Balance Sheet represents such original cost, which is substantially the cost of the plant to the Company.

H. W. HECKLE,
General Auditor.

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
AND CITIZENS TELEPHONE COMPANY

Comparative Consolidated Balance Sheet

ASSETS

	<u>Dec.31,1944</u>	<u>Dec.31,1943</u>
Plant and Other Investments:		
Telephone Plant (See page 7).....	\$50,583,940	\$50,078,687
Comprised of land and buildings, rights of way, poles, wire, cable, underground conduit, switchboards, telephones, office furniture, vehicles, tools, etc. At December 31, 1944, this property was classified in the accounts as follows:		
Telephone plant in service.....	\$50,574,797	
Telephone plant under construction	7,802	
Property held for future telephone use	1,341	
Investment in Subsidiary Company.....	32,937	32,937
Capital stock.....		
U. S. Excess Profits Tax Refund Bonds....	98,392	
Total Plant and Other Investments.....	<u>50,715,269</u>	<u>50,111,624</u>
Current Assets:		
Cash	1,433,232	1,348,772
Temporary Cash Investments.....	5,358,000	4,108,000
Funds temporarily invested in U. S. Government securities. Represents, at December 31, 1944, U. S. Treasury tax notes.		
Special Cash Deposits.....	40,001	20,354
Working Funds	15,243	13,407
Accounts Receivable	1,512,288	1,349,338
Amounts due for service (less reserve for uncollectible accounts), toll settlements, interest, dividends, rents and miscellaneous items.		
Material and Supplies.....	301,765	328,494
Principally for construction and maintenance purposes.		
Total Current Assets.....	<u>8,660,529</u>	<u>7,168,365</u>
Deferred Charges:		
Prepayments	43,315	44,608
Rents, taxes, insurance, cost of directories, and other expenses prepaid and applicable to periods after close of year.		
Post-war Refund of Excess Profits Taxes....	289,808	235,000
Estimated amounts for which tax refund bonds had not been received.		
Other Deferred Charges.....	16,980	22,948
Total Deferred Charges.....	<u>350,103</u>	<u>302,556</u>
Total Assets	<u>\$59,725,901</u>	<u>\$57,582,545</u>

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
AND CITIZENS TELEPHONE COMPANY

Comparative Consolidated Balance Sheet

LIABILITIES

	Dec. 31, 1944	Dec. 31, 1943
Capital Stock:		
Common Stock—par value (\$50 per share) (Authorized, 1,000,000 shares; outstanding, 604,432 shares.)	\$30,221,600	\$30,221,600
Premium on Capital Stock.....	72,756	72,756
Amount received in excess of par value.		
Total Capital Stock.....	<u>30,294,356</u>	<u>30,294,356</u>
Notes Sold to Trustee of Pension Fund.....	790,995	904,691
Demand notes held by Trustee as an investment of pension trust funds not presently required to meet pension payments—see page 12. Under present arrangements with the Trustee, it is expected that approximately \$120,000 of these notes will be retired during 1945.		
Current and Accrued Liabilities:		
Advance Billing and Customers' Deposits..	398,931	426,209
Accounts Payable and Other Current Liabilities	1,099,711	898,339
Amounts owing for payrolls, supplies, toll settlements, and miscellaneous items which are in process of payment.		
Taxes Accrued but not Due.....	3,953,034	3,852,178
Dividend Declared	513,767	513,767
Total Current and Accrued Liabilities....	<u>5,965,443</u>	<u>5,690,493</u>
Deferred Credits	10,912	5,596
Depreciation Reserve	18,198,502	16,533,236
Provision to meet loss of investment in depreciable plant upon its ultimate retirement from service.		
Contributions of Telephone Plant.....	19,635	17,253
Unappropriated Surplus (See page 11).....	4,446,058	4,136,920
Total Liabilities	<u>\$59,725,901</u>	<u>\$57,582,545</u>

H. W. HECKLE,
General Auditor.

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
AND CITIZENS TELEPHONE COMPANY

Comparative Consolidated Income Statement

	Year 1944	Year 1943
LOCAL SERVICE REVENUES.....	\$11,775,957	\$11,371,701
TOLL SERVICE REVENUES.....	2,506,317	2,035,029
MISCELLANEOUS REVENUES	335,430	426,480
Revenues from directory advertising, rents and miscellaneous sources.		
Total	14,617,704	13,833,210
LESS—UNCOLLECTIBLE OPERATING REVENUES	3,210	2,417
Provision for revenues which may be un- collectible.		
Total Operating Revenues.....	14,614,494	13,830,793
CURRENT MAINTENANCE	2,262,828	2,096,533
Cost of inspection, repairs, and rearrange- ments required to keep the plant and equipment in good operating condition.		
DEPRECIATION EXPENSE	1,770,925	1,737,515
Provision to meet loss of investment when depreciable plant is retired from service, based on rates for the different classes of property which are designed to spread this loss of investment uniformly over its service life. Represents approximately 3.8% of average investment in depreciable plant in service.		
TRAFFIC EXPENSES	1,703,520	1,463,609
Costs incurred in the handling of mess- ages, principally operators' wages.		
COMMERCIAL EXPENSES	712,696	643,096
Costs incurred in business relations with customers; pay station commissions; also the cost of directories, advertising, etc.		
OPERATING RENTS	35,518	43,619
Rents for use of buildings, poles, con- duits and other facilities.		
GENERAL AND MISCELLANEOUS EXPENSES:		
Executive and Legal Departments.....	138,960	117,032
Accounting and Treasury Departments.....	467,803	399,490
Provision for employees' service pensions (a)	260,755	187,524
Employees' sickness, accident, death and disability, and other benefits.....	124,120	121,046
Services received under license contract.....	210,442	194,565
Other general expenses.....	280,521	267,831
Less: Expenses charged construction.....	65,753	52,965
Total Operating Expenses.....	7,902,335	7,218,895
Net Operating Revenues (Carried Forward)....	\$ 6,712,159	\$ 6,611,898

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
AND CITIZENS TELEPHONE COMPANY

Comparative Consolidated Income Statement (Continued)

	Year 1944	Year 1943
Net Operating Revenues (Brought Forward).....	\$ 6,712,159	\$ 6,611,898
OPERATING TAXES:		
Federal Income Taxes.....	1,354,100	1,354,100
Federal Excess Profits Taxes (b).....	1,788,300	1,627,200
Other Taxes—principally state, local and social security	1,099,900	1,089,800
Total Operating Taxes.....	4,242,300	4,071,100
Net Operating Income.....	2,469,859	2,540,798
OTHER INCOME	46,962	34,062
Dividends, interest and miscellaneous in- come.....		
MISCELLANEOUS DEDUCTIONS FROM INCOME (a)	108,832	117,574
Income Available for Fixed Charges.....	2,407,989	2,457,286
INTEREST DEDUCTIONS	45,584	38,587
Net Income	\$ 2,362,405	\$ 2,418,699

- (a) The total provision for employees' service pensions amounted to \$351,972 for 1944 and \$287,536 for 1943, of which amounts \$91,217 for 1944 and \$100,012 for 1943 were charged to Miscellaneous Deductions from Income in accordance with accounting requirements of the Federal Communications Commission. The Companies consider that these latter amounts were, in fact, current operating expenses and should have been accounted for as such.
- (b) The provisions for excess profits taxes for 1944 and 1943 are after deduction of the total excess profits tax credits of \$198,700 and \$180,800, respectively. The Companies used \$45,500 of the 1944 credit and \$44,000 of the 1943 credit through debt retirement.

Consolidated Statement of Unappropriated Surplus
Year 1944

Balance—December 31, 1943.....	\$ 4,136,920
Net Income (from Income Statement).....	\$ 2,362,405
Miscellaneous Additions	1,802
Total Additions	2,364,207
Dividends Declared	2,055,069
Net Increase	309,138
Balance—December 31, 1944.....	\$ 4,446,058

H. W. HECKLE,
General Auditor.

Trustee's Report of Pension Trust Fund

established by

THE CINCINNATI AND SUBURBAN BELL TELEPHONE COMPANY
AND CITIZENS TELEPHONE COMPANY

Balance in Fund—December 31, 1943.....	\$ 2,514,777.08
Additions to Fund During 1944—	
Payments into Fund by Company.....	\$ 351,972.00
Interest Revenue, including gain or loss on investments disposed of.....	91,836.78
Total Additions	\$ 443,808.78
Disbursements for pensions during 1944	115,023.29
Net Increase in Fund.....	328,785.49
Balance in Fund—December 31, 1944.....	<u>\$ 2,843,562.57</u>

Comprised of—

4% Demand Notes of The Cincinnati and Suburban Bell Telephone Company.....	\$ 790,995.02
Bonds of Bell Telephone Companies.....	206,419.20
U. S. Government Obligations.....	1,195,280.20
Public Utility, Railroad and Industrial Bonds.....	593,380.50
Cash and accrued interest not due.....	57,487.65
Total	<u>\$ 2,843,562.57</u>

NOTE: Securities are shown on amortized basis.

BANKERS TRUST COMPANY, *Trustee*

By W. B. DUNCKEL,
Vice President

New York, N. Y.—January 18, 1945.

